

# RatingsDirect®

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## Summary:

# State of Ohio; Appropriations; General Obligation

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## Summary:

# State of Ohio; Appropriations; General Obligation

### Credit Profile

US\$100.0 mil cap facs lse approp bnds (Parks & Recreation Imp Fund Projs) ser 2016C dtd 10/06/2016 due 12/01/2031

<i>Long Term Rating</i>	AA/Stable	New
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Ohio GO

<i>Long Term Rating</i>	AA+/Stable	Affirmed
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#### **Ohio State Treasurer, Ohio**

State of Ohio, Ohio

Ohio State Treasurer (Ohio) adult correctional

<i>Long Term Rating</i>	AA/Stable	Affirmed
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## Rationale

S&P Global Ratings assigned its 'AA' rating to the State of Ohio's \$100 million capital facilities lease appropriation bonds, series 2016C (Parks and Recreation Improvement Fund Projects). At the same time, S&P Global Ratings affirmed its 'AA+' rating on the state's general obligation (GO) bonds and affirmed the 'AA' rating on the state's appropriation-backed debt outstanding. The outlook on all ratings is stable.

S&P Global Ratings also affirmed its 'AA-' rating and stable outlook on Ohio's tax credit bonds issued by Columbus-Franklin County Finance Authority. (For more information on the authority, please refer to the full analysis published Nov. 19, 2015, on Ratings Direct.) Finally, S&P Global Ratings affirmed its 'AA+/A-1+' GO variable-rate demand debt backed by the state's self-liquidity. The outlook on the long-term rating is stable.

The 'AA' appropriation rating reflects our view of:

- Ohio's general creditworthiness (GO rating: AA+/Stable) as lessee;
- The state's demonstrated commitment, within both the administrative and legislative branches, to repaying appropriation-backed obligations;
- The strong contractual provisions of the master lease structure securing the lease appropriation bonds, including an absolute and unconditional payment provision once funds are appropriated; and
- The importance of appropriation debt to Ohio's overall capital bonding structure.

State lease-rental payments, subject to separate biennial appropriation, secure the capital facilities lease appropriation bonds for the Parks and Recreation Improvement Fund projects. We understand that bond proceeds will be used to finance new capital facilities projects. The bonds are authorized under the state constitution, which allows for special obligation bonds for the purpose of paying the costs for capital facilities for the Department of Natural Resources (DNR). The bonds are all special obligations of Ohio issued by the state treasurer and payable from pledged receipts, which are the lease rental payments made to the Ohio Public Facilities Commission (OPFC) by DNR under the supplemental lease agreements.

The OPFC, the lessor, is a state agency and has assigned the lease payments to the trustee. The DNR agrees to include all lease payments due under the master lease in its budget request each biennium, which are part of the budget submitted by the director of the State Office of Budget and Management and the governor to the state general assembly.

Once the general assembly makes the appropriations, the obligation to make lease payments is absolute and unconditional. There are no abatement provisions under the lease agreements. There are also no debt service reserve funds established for the lease appropriation bonds; the timing of lease-rental and debt service payments, coupled with the state's history in managing appropriations for debt service, mitigates any concern over late budget adoption. Ohio has a strong record of approving budgets on time, in our view. The general assembly passed, and the governor signed, a continuing appropriation measure that included funds for debt service-lease payments and related appropriations for the full biennium when there was late budget adoption. All payments for appropriation obligations of the state have been expressly excluded from budget reduction measures historically.

The 'AA+' ratings reflect what we view as Ohio's:

- Long track record of proactive financial and budget management, including the state's implementation of frequent and timely budget adjustments over time to mitigate lower revenue;
- Commitment to funding budget reserves that have been, and are expected to remain, instrumental in managing budget gaps through economic cycles;
- Improved revenue and budget performance and restoration of the budget stabilization fund (BSF), which has been increased to a statutory target of 8.5% of revenue as part of the enacted 2016-2017 budget;
- Vast, broad, and diverse economy, which has expanded steadily following weak performance through the past two recessions. Employment is anchored by manufacturing and includes several regional centers and corporate headquarters, in addition to a diverse service sector;
- Moderate debt levels, with rapid amortization and a conservatively managed capital and debt program; and
- Significant pension reform changes and steady progress in funding other postemployment benefits (OPEB).

Ohio's economy continues to expand and, although the expansion has been slow compared with previous post-recession phases, the state's unemployment rate significantly improved in 2014 and 2015, with the rate holding at 4.8% in July 2016, just above the U.S. level of 4.9% for the same time period. This rate compares very favorably with Ohio's 10.2% unemployment rate at its recessionary peak in 2009. Steady economic improvement has translated into expanding revenue and improved financial performance.

Fiscal 2016 (unaudited) ended with a general revenue fund (GRF) cash and fund balance of \$1.19 billion and \$764.7 million, respectively. According to the state, these ending balances reflect about \$1.18 billion in fiscal 2016 underspending due largely to Medicaid expenditures coming in \$925.9 million below its spending estimate. Of that amount the state put \$169.7 million required toward its 0.5 GRF revenues ending fund balance reserve; put \$100 million to the school building fund, \$150 million to the health and human service fund, \$25 million to the emergency purposes and contingency fund, and transferred \$29.5 million to the BSF. The remaining \$290.6 million will be carried forward to cover planned for and modest variances of fiscal 2017 GRF appropriations over estimated GRF revenue.

As is customary with the state and part of its conservative budgetary practices Ohio revised its GRF tax revenue forecast for its second half of the 2016-2017 biennium budget. As part of the revision, OBM reduced its estimated fiscal

2017 GRF tax revenue forecast by \$282. million, a 1.2% reduction compared to the original fiscal 2017 tax revenue forecast. The largest variances are in personal income tax (reduced by \$223million or 2.6%), the commercial activity tax (reduced by \$44.5 million or 3.4%), and the cigarette tax (increased by \$45. 6 million or 4.9%). OBM is currently projecting a positive GRF fund balance at the end of fiscal 2017.

Ohio budgeted a modest drawdown of about \$110 million in the GRF over the biennium. The GRF was budgeted to close at \$503 million in fiscal 2016 and \$439 million in fiscal 2017; the balances exceed the state's statutory 0.5% ending general fund balance requirement. Along with the substantial reserves in the BSF, the projected fund balance of \$459 million in fiscal 2017 is more than adequate, in our view. Ohio transferred \$29.5 million to the BSF on July 27, 2016, bringing the balance to \$2.034 billion; about 6.4% of fiscal 2016 revenue. The new statutory ceiling for the BSF is 8.5% of revenue, an increase from the previous maximum of 5.0%, which we view as a credit positive for the state's fiscal flexibility and believe will aid the state in addressing future budget volatility. This is especially significant for Ohio, which has to maintain budget balance throughout the year.

In terms of the fiscal 2018-2019 biennium budget, one challenge for the state is that the managed care sales tax will go away at end of 2017. Ohio is the only state left that is allowed to collect the tax through fiscal 2017. Ohio has guided state agencies about as well as the counties that have a local sales tax that coincides with the state tax. According to the state, the executive budget to be presented in January will look at options to address the loss of this revenue source. The state sees this as challenging, however manageable.

S&P Global Ratings considers Ohio's debt ratios moderate. With limited exceptions, the state constitution caps debt service at 5% of revenue; Ohio has remained below this cap and, based on projected debt issuance, we expect that debt service will remain within the constitutional cap. Debt amortization is rapid, in our view, with approximately 76% of tax-supported debt retired over the next 10 years. Ohio's pension liability profile has improved as of the state's fiscal 2015 audited financial statements because of the lower reported net pension liability based on Ohio's allocation across three pension plans. According to the fiscal 2015 comprehensive annual financial report, Ohio's share of the net pension liability across three pension plans total \$2.9 billion or \$252 per capita, which is low in our view. Relative to total personal income, the state's share of the net pension liability is 0.6%, which we consider very low. The aggregate funded ratio across plans is average, in our view, at nearly 79%. Contribution rates for the state are established by statute at 14% of salary. Ohio's postemployment liability profile has improved following various modifications. These reforms, in combination with better investment performance, should contribute to improved funded ratios, in our opinion. In contrast to many states, Ohio has actively managed its OPEB liabilities and accumulated significant assets to offset these liabilities, which we believe will limit future cost pressure.

On a four-point scale on which '1.0' is strongest, we have assigned an overall score of '1.7' to Ohio.

(For more information on Ohio's general credit worthiness please refer to the full analysis published Feb. 12, 2016, on RatingsDirect.)

## Outlook

The stable outlook reflects our view of Ohio's improved structural budget alignment and steady economic growth, which has increased revenue and allowed for contributions to the BSF. The state, we believe, has proactively responded to budget imbalance over time, and this is also factored into our current outlook. We also note the statutory debt limits in place and meaningful reform efforts focused on postretirement liabilities, which should limit fixed-cost pressure. The pace of economic recovery and continuation of structural budget alignment will be important to future credit direction. Were financial, budget, and economic trends to improve significantly, this could result in positive credit implications. Although unlikely based on current trends and policy decisions, deterioration in structural budget alignment and a sharp decline in the reserve position could pressure the rating.

Ratings Detail (As Of September 13, 2016)		
Ohio cultural & sports		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio mental hlth cap facs		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio pub fac comm parks & recre		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio GO VRD common schs		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
Ohio GO VRD infrastructure		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
Ohio APPROP		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio APPROP		
<i>Long Term Rating</i>	AA/Stable	Affirmed
State of Ohio cap facs lse-approp bnds (Mental Health Facilities Improvement Fund Projs) ser 2016A due 06/01/2026		
<i>Long Term Rating</i>	AA/Stable	Affirmed
State of Ohio cap facs lse-approp rfdg bnds (Mental Health Facilities Improvement Fund Projs) ser 2016B due 08/01/2023		
<i>Long Term Rating</i>	AA/Stable	Affirmed
State of Ohio cap facs lse-approp rfdg bnds (Parks And Recreation Improvement Fund Projs) ser 2016B due 08/01/2025		
<i>Long Term Rating</i>	AA/Stable	Affirmed
State of Ohio lse bnds (Cultural And Sports Facility Building Fund Proj) ser 2016A due 10/01/2026		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<b>Ohio mental hlth cap facs bnds ser II-2006A</b>		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
<b>Ohio parks &amp; recre cap facs ser II-2007A</b>		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
<b>Ohio pub fac comm parks &amp; recre</b>		

Ratings Detail (As Of September 13, 2016) (cont.)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
<b>Ohio GO</b>		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
<b>Columbus-Franklin Cnty Fin Auth, Ohio</b>		
State of Ohio, Ohio		
Columbus-Franklin Cnty Fin Auth (Ohio) research & dev		
Long Term Rating	AA-/Stable	Affirmed
Columbus-Franklin Cnty Fin Auth (Ohio) taxable R&D rfdg rev bnds (ohio cap fd financing) (Ohio)		
Long Term Rating	AA-/Stable	Affirmed
Columbus-Franklin Cnty Fin Auth (Ohio) APPROP		
Long Term Rating	AA-/Stable	Affirmed
<b>Ohio Bldg Auth, Ohio</b>		
State of Ohio, Ohio		
Ohio Bldg Auth (Ohio) admin bldg		
Long Term Rating	AA/Stable	Affirmed
Ohio Bldg Auth (Ohio) adult correctional		
Long Term Rating	AA/Stable	Affirmed
Ohio Bldg Auth (Ohio) arts fac		
Long Term Rating	AA/Stable	Affirmed
Ohio Bldg Auth (Ohio) highway safety		
Long Term Rating	AA/Stable	Affirmed
Ohio Bldg Auth (Ohio) juvenile correctional		
Long Term Rating	AA/Stable	Affirmed
<b>Ohio Bldg Auth (Ohio) st facs</b>		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
<b>Ohio Bldg Auth (Ohio) (Admin Bldg Fd Projs) st facs</b>		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
<b>Ohio Bldg Auth (Ohio) (Adult Correctional Bldg Fd Projs) st facs</b>		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
<b>Ohio Bldg Auth (Ohio) (Hwy Safety Bldg Fd Projs) st facs</b>		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
<b>Ohio Bldg Auth (Ohio) (Juvenile Correctional Bldg Fd Projs) st facs</b>		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
<b>Ohio Dept of Admin Svc, Ohio</b>		
State of Ohio, Ohio		
Ohio Dept of Adim Svc (Ohio) (Ohio Administration Knowledge Sys Proj)		
Long Term Rating	AA/Stable	Affirmed
Ohio Dept of Admin Svc (Ohio) APPROP		
Long Term Rating	AA/Stable	Affirmed
Ohio Dept of Admin Svc (Ohio) APPROP		

Ratings Detail (As Of September 13, 2016) (cont.)		
Long Term Rating	AA/Stable	Affirmed
Ohio Dept of Admin Svc (Ohio) APPROP		
Long Term Rating	AA/Stable	Affirmed
Ohio Dept of Adm Svces (Ohio) multi-agy radio communication		
Long Term Rating	AA/Stable	Affirmed
Ohio Dept of Adm Svces (Ohio) state taxation accounting & rev sys		
Long Term Rating	AA/Stable	Affirmed
<b>Ohio Pub Facs Comm, Ohio</b>		
State of Ohio, Ohio		
Ohio Pub Facs Comm (Ohio)		
Long Term Rating	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio)		
Long Term Rating	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio)		
Long Term Rating	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) coal dev GO bnds (Ohio) due 02/01/2026		
Long Term Rating	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) hgr ed GO rfdg bnds		
Long Term Rating	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) higher education GO rfdg bnds (Ohio)		
Long Term Rating	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) infrastructure imp GO rfdg bnds		
Long Term Rating	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) infra imp GO rfdg bnds (Ohio)		
Long Term Rating	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) GO		
Long Term Rating	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) GO		
Long Term Rating	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) GO		
Long Term Rating	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) GO VRD		
Long Term Rating	AA+/A-1+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) GO		
Long Term Rating	AA+/Stable	Affirmed
Ohio Pub Fac Com (Ohio) hgr ed cap facs		
Long Term Rating	AA/Stable	Affirmed
<b>Ohio State Treasurer, Ohio</b>		
State of Ohio, Ohio		
Ohio State Treasurer (Ohio)		
Long Term Rating	AA/Stable	Affirmed
Ohio State Treasurer (Ohio)		
Long Term Rating	AA/Stable	Affirmed
Ohio State Treasurer (Ohio) admin bldg		



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